

PROJECTING INCOME AND ASSETS:

WHAT MIGHT THE FUTURE HOLD FOR THE NEXT GENERATION OF MEDICARE BENEFICIARIES?

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As national attention turns to the federal deficit, some policymakers have proposed reforms to Medicare, Medicaid and Social Security that could have significant implications for current and future generations of seniors and younger adults with disabilities. This data brief describes the income and assets of the current Medicare population, considers variations by race/ethnicity and other demographic characteristics, and examines the extent to which income and assets are likely to be higher for the next generation of beneficiaries. The analysis is based on the Dynasim microsimulation model developed by researchers at the Urban Institute, described on page 4.

KEY FINDINGS

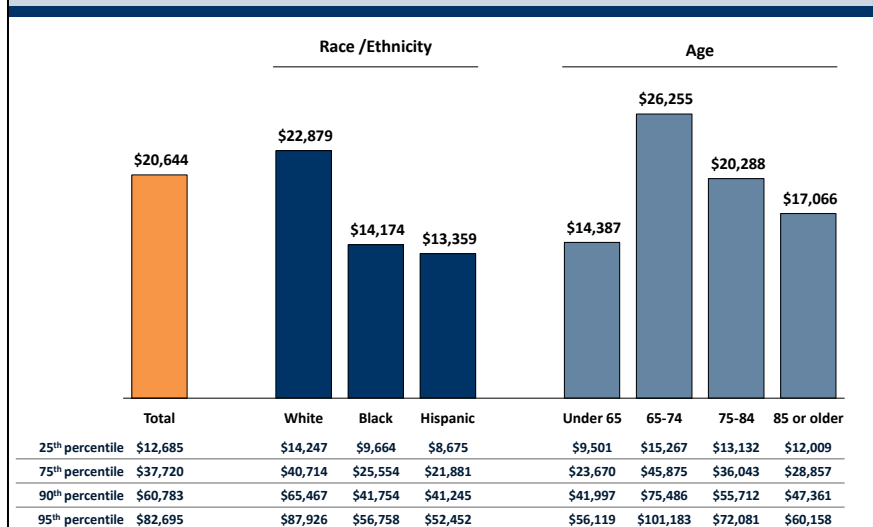
- Half of Medicare beneficiaries had incomes less than \$21,000 in 2010; median per capita income is lower for black and Hispanic beneficiaries than for white beneficiaries and declines with age among seniors. Per capita income is highly skewed: less than five percent of beneficiaries have incomes of \$83,000 or higher.
- Per capita income is projected to rise, but much of this growth is projected to occur at higher incomes, leading to a wider income gap among the next generation of beneficiaries.
- Between 2010 and 2030, white beneficiaries will see greater gains in income than black or Hispanic beneficiaries.
- Half of all Medicare beneficiaries have less than \$60,000 in home equity, half have less than \$2,000 in retirement savings, and half have less than \$30,000 in financial assets, but five percent have financial assets valued at more than \$890,000.
- The average value of home equity was substantially higher for white than black or Hispanic beneficiaries in 2010; these differences are projected to persist for the next decades.
- White beneficiaries have significantly more in savings than black or Hispanic beneficiaries; the gap in savings is

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Half of all Medicare beneficiaries had incomes below \$20,644 in 2010. Median per capita income varied across beneficiary characteristic and is substantially higher for white beneficiaries than for black or Hispanic beneficiaries. Across all ages, median per capita income is lower for the under-65 disabled than for seniors; among seniors, those ages 85 and older had relatively low incomes, with more than half living on an income of less than \$18,000 in 2010.

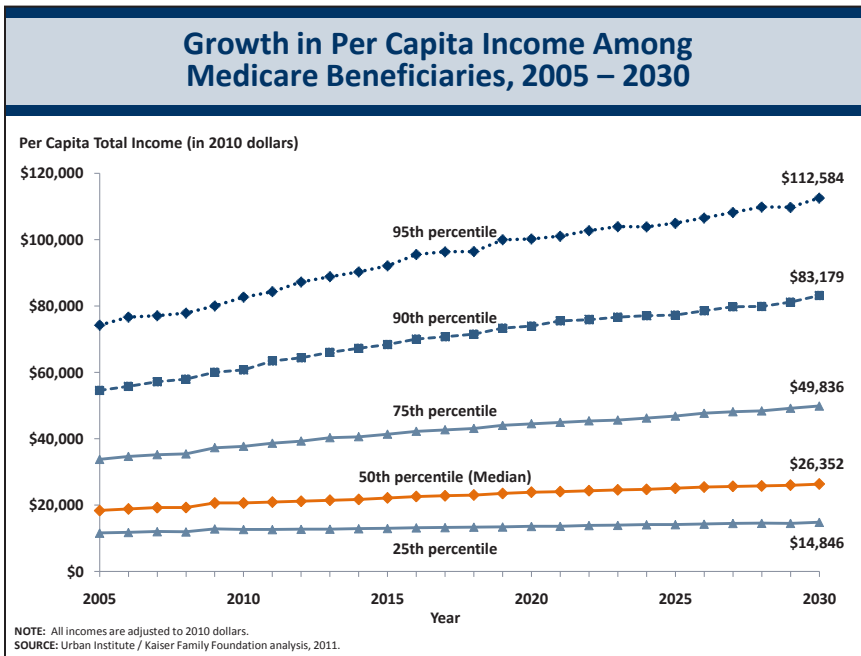
The distribution of Medicare beneficiaries' incomes is skewed; in 2010, one-quarter of beneficiaries had incomes below \$12,685, while 5 percent had incomes exceeding \$82,695.

Median Income Among Medicare Beneficiaries, 2010



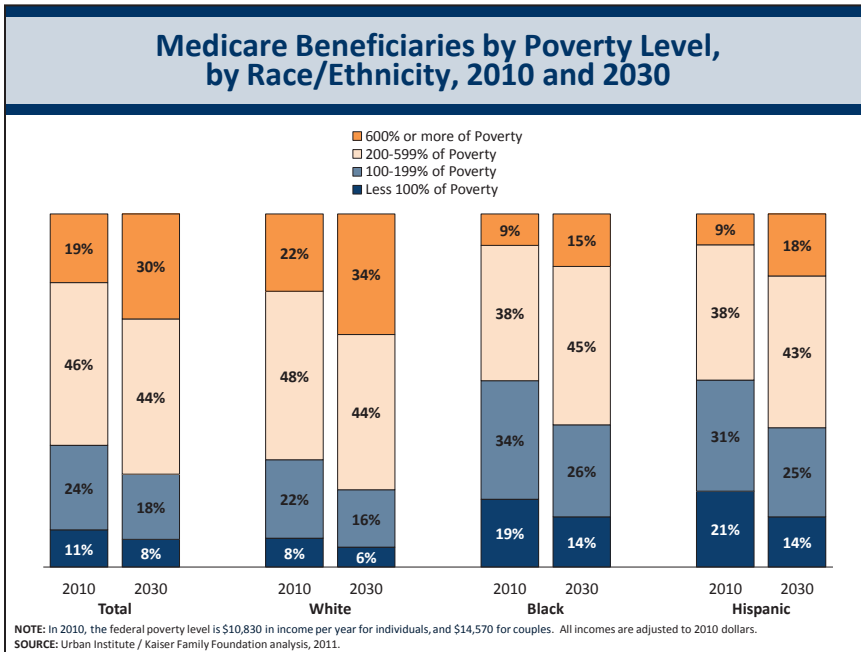
SOURCE: Urban Institute / Kaiser Family Foundation analysis, 2011.

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For most of the next generation of Medicare beneficiaries, average incomes will be moderately higher than the incomes of the current generation of beneficiaries, after adjusting for inflation; however, the growth is projected to be concentrated in the upper incomes. Projections show that, compared to the current generation of beneficiaries, incomes will be 17 percent higher for the next generation of beneficiaries in the bottom quarter of the income distribution, but 37 percent higher for beneficiaries in the top ten percent of the income distribution. Twenty-five percent of the next generation of beneficiaries will have incomes that are below \$15,000 and half will have incomes below \$26,400. Ten percent of beneficiaries will have incomes above \$83,000 and five percent will have incomes above \$112,000 in 2030.

Between 2010 and 2030, white beneficiaries will see greater gains in income than black or Hispanic beneficiaries.



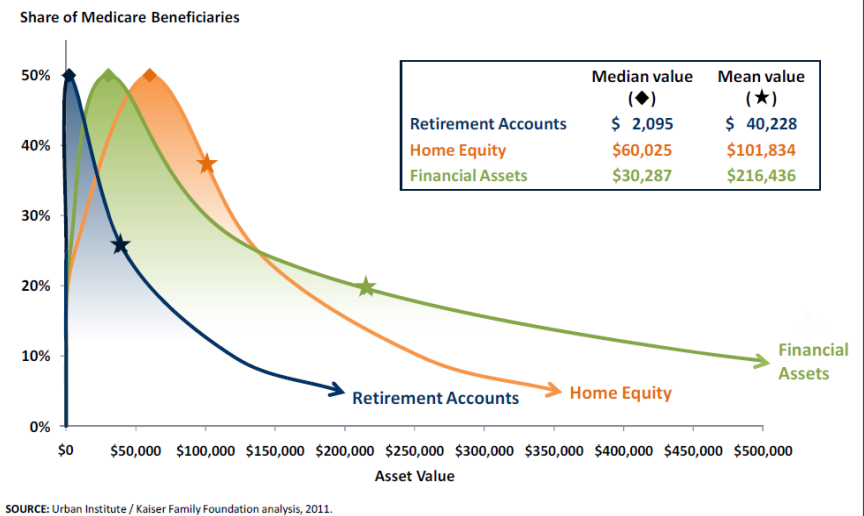
Overall, the share of Medicare beneficiaries living in poverty, or who are near-poor, is projected to decline by 2030, while a larger share of beneficiaries is projected to have incomes above 600 percent poverty. Between 2010 and 2030, the share of all Medicare beneficiaries living on incomes at or above 600 percent of poverty is projected to rise from 19 percent to 30 percent. However, much of this growth is among white beneficiaries, and the differences between white, black, and Hispanic beneficiaries' incomes are projected to persist for the next several decades. By 2030, one-third of all white beneficiaries are projected to have incomes at or above 600 percent of poverty – about double the share projected for black or Hispanic beneficiaries (15 percent and 18 percent, respectively).

Conversely, in 2030, as in 2010, black and Hispanic beneficiaries are projected to have significantly lower incomes than white beneficiaries. About 40 percent of black and Hispanic beneficiaries are projected to live on incomes below twice the poverty level in 2030, compared to 22 percent of white beneficiaries.

Half of all Medicare beneficiaries have less than \$60,000 in home equity, half have less than \$2,000 in retirement savings, and half have less than \$30,000 in financial assets.

In 2010, about half (53 percent) of Medicare beneficiaries had a retirement account, three-quarters (77 percent) had home equity, and nearly seven out of eight (88 percent) had positive financial assets, such as cash, stocks, and bonds. Across all beneficiaries, including those without these assets, Medicare beneficiaries averaged \$40,228 in retirement accounts, \$101,834 in home equity and \$216,436 in financial assets, but half had less than \$2,095 in retirement accounts, less than \$60,025 in home equity, and less than \$30,287 in financial assets. As is the case with income, the distribution of Medicare beneficiaries' assets is highly skewed. In 2010, 10 percent of Medicare beneficiaries had more than \$253,461 in home equity, and five percent had more than \$352,494 in home equity. With regard to savings, ten percent had more than \$566,671 in retirement accounts and financial assets combined, while five percent had more than \$1,048,956.

Distribution of Home Equity, Financial Assets and Retirement Account Holdings Among Medicare Beneficiaries, 2010



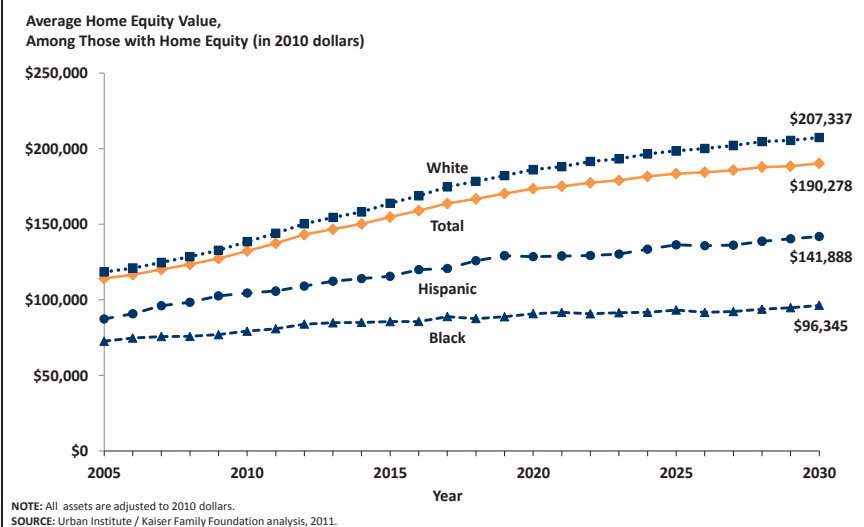
The average value of home equity was substantially higher for white than for black or Hispanic beneficiaries in 2010; these differences are projected to persist for the next decades.

Among Medicare beneficiaries with home equity, the average home equity is projected to grow from \$132,322 in 2010 to \$190,278 in 2030, after adjusting for inflation. A larger share of white beneficiaries than black or Hispanic beneficiaries had home equity in 2010 (81 percent, 65 percent, and 57 percent, respectively), but even among home owners, home equity among white beneficiaries is projected to grow more rapidly than among black or Hispanic beneficiaries.

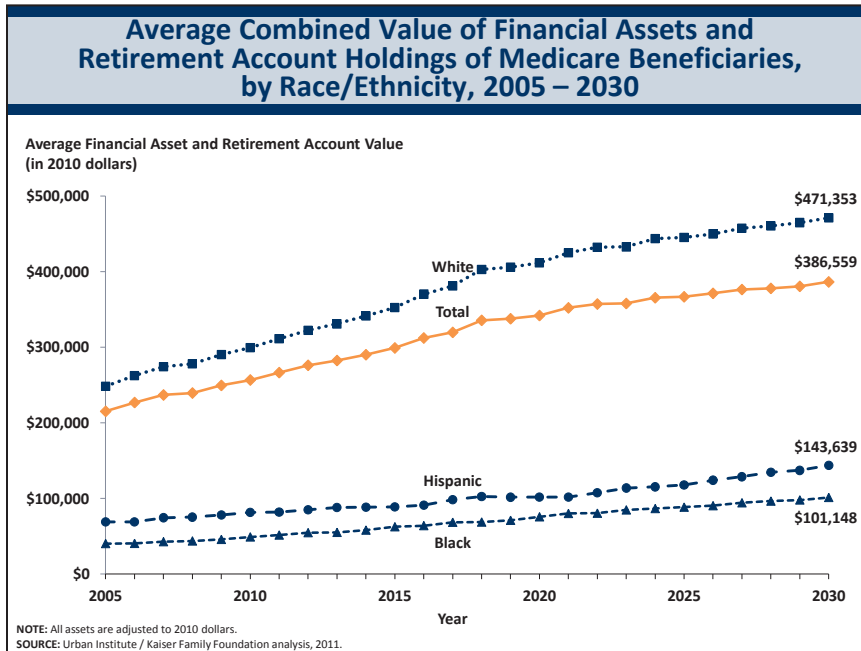
Among homeowners, the average value of home equity among white beneficiaries is projected to grow from \$138,418 in 2010 to \$207,337 in 2030 (2 percent average annual growth rate). In comparison, the value of home equity is projected to grow from \$79,221 in 2010 to \$96,345 in 2030

(1 percent average annual growth rate) among black Medicare beneficiaries, and from \$104,442 in 2010 to \$141,888 in 2030 (1.5 percent average annual growth rate) among Hispanic beneficiaries.

Average Value of Home Equity Among Medicare Beneficiaries, by Race/Ethnicity, 2005 – 2030



White Medicare beneficiaries have significantly more in savings than black or Hispanic beneficiaries; the gap in savings is projected to widen by 2030.



The vast majority of Medicare beneficiaries in 2010 (91 percent) had some savings in either a retirement account or other financial assets, but a smaller share of black and Hispanic beneficiaries (79 percent of blacks and 78 percent of Hispanics) had savings than white beneficiaries (95 percent). The share of beneficiaries with savings is projected to increase between 2010 and 2030, reflecting the rising prevalence of retirement accounts among today's workers. Despite modest gains in the share of black and Hispanic beneficiaries with savings over the next two decades, savings accounts will continue to be more prevalent among the next generation of white beneficiaries than among black or Hispanic beneficiaries.

In 2010, white beneficiaries had significantly more in savings (\$299,388 on average) than black or Hispanic beneficiaries (averaging \$48,872 and \$81,394, respectively). The savings gap is projected to widen by 2030. White Medicare beneficiaries are projected to have \$471,353 in savings in 2030, more than four times the average savings projected to be held by black beneficiaries (\$101,148) and more than three times the average savings projected to be held by Hispanic beneficiaries (\$143,639).

Conclusion

While a small share of the Medicare population lives on relatively high incomes, most are of modest means, with half of people on Medicare living on less than \$21,000 in 2010. The typical beneficiary has some savings and home equity, but asset values are highly skewed and are significantly higher for white beneficiaries than for black or Hispanic beneficiaries. The income and assets of Medicare beneficiaries overall are projected to be somewhat greater in 2030 than in 2010; yet, only a minority of the next generation of beneficiaries will have significantly higher incomes and assets than the current generation, with much of the growth projected to be concentrated among those with relatively high incomes. Racial disparities in both income and assets are projected to persist for the next decades.

As policymakers consider options for decreasing federal Medicare spending and addressing the federal debt and deficit, this analysis raises questions about the extent to which the next generation of Medicare beneficiaries will be able to bear a larger share of costs.

Methodology

Asset and income projections are based on the Urban Institute's Dynamic Simulation of Income Model (DYNASIM3). DYNASIM3 starts with a self-weighting sample of 103,072 individuals from the 1990 to 1993 panels of the Survey of Income and Program Participation (SIPP) and ages this starting sample in yearly increments to 2085 using parameters estimated from longitudinal data sources. The model integrates many important trends and differences among groups in life course processes, including birth, death, schooling, leaving home, first marriage, remarriage, divorce, disability, work, retirement, and earnings. Projections of fertility, disability, mortality, net immigration, employment, average earnings, and price changes are aligned to be consistent with 2009 OASDI Trustees projections. Projections of assets are aligned to the Survey of Consumer Finance (SCF) through 2007. For a fuller description of DYNASIM3, see Melissa M. Favreault and Karen E. Smith. 2004. "A Primer on the Dynamic Simulation of Income Model (DYNASIM3)." Discussion Paper, the Retirement Project, The Urban Institute.

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